

Drop-In Article

Accurate Information Returns Avoid Costly Penalties

Verifying your workers' names and taxpayer identification numbers (TINs) may save your business costly penalties. The Internal Revenue Code (IRC) allows for up to \$50 in penalties for each incorrect or incomplete information return, such as a W-2 or 1099, that is submitted, up to a maximum of \$250,000 per year (\$100,000 for small businesses with annual gross receipts of \$5 million or less). If the error or omission is deemed to be intentional disregard of the filing requirements, the penalty is at least \$100 for each instance, with no maximum annual penalty amount. Do the math. It's worth the time it takes to do it right!

The penalties apply if you:

- ✓ Fail to file timely
- ✓ Fail to include all information required
- ✓ Include incorrect information
- ✓ Report an inaccurate TIN
- ✓ Fail to report a TIN
- ✓ File on paper when you are required to file on magnetic media
- ✓ Fail to file paper Forms that are machine readable

For most individuals, the TIN is their Social Security Number (SSN). In some instances (for example, sole proprietorships), the TIN may be an employer identification number (EIN). If your worker does not have a TIN, he/she may apply for an SSN from the Social Security Administration (SSA) using Form SS-5, available at your local SSA office. Or he/she may request an EIN using Form SS-4 which is available from the IRS by calling 1-800-TAX-FORM.

Note that individual taxpayer identification numbers (ITINs) issued by the IRS can never be used to report earned income. Every worker able to work legally in the United States must have a valid SSN to work.

You can reduce or eliminate the chances of incurring these penalties by taking a few common-sense steps:

- ✓ Ask each new worker for proof of his/her TIN (usually a Social Security card)
- ✓ Accurately record the TIN and name as provided by the worker in your payroll records
- ✓ Remind your workers to report any name changes due to marriage, divorce, etc., to both the Social Security Administration (SSA) and to you
- ✓ Use the SSA Employee Verification Service (EVS) prior to submitting W-2s to SSA for processing

For more information about information reporting requirements and/or the penalties discussed above, please visit www.irs.gov and www.ssa.gov/employer.